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Indonesia

GRAIN

Grain and Feed Annual Report 2009

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Report Highlights:

In MY2008/09, Indonesian wheat imports are forecast to increase to 5.2 MMT and rice imports are forecast to increase to 500 TMT. However, imports of corn for MY08/09 are forecast to decline to 100 TMT as feed millers utilize more domestic corn because production will reach 8.7 MMT in MY 2008/09.

Executive Summary:

Concerns over the global financial crisis are reflected in Indonesian government officials decreasing the 2009 target for economic growth to 4 percent from an initial 6 percent. On the other hand, the 2009 election year will prompt GOI to maintain ample supplies of rice at an affordable price level because of its political importance as a staple food.

Wheat

In MY2008/09, Indonesian wheat imports are estimated to increase 5.8 percent to 5.2 MMT compared to the previous MY2007/08 of 4.9 MMT. Several wheat flour importers becoming wheat millers is the major factor behind this increase. U.S. wheat prices remain competitive and there is still bright prospect for the United States to increase wheat exports to Indonesia. In MY 2008/09 imports of wheat from the United States are estimated to reach 15 percent of the total market share.

Corn

GOI's target to increase corn production and thus minimize imports was reached in MY2007/08 when the production of corn reached 8.5 MMT. Production is estimated to go up another 2.4 percent to 8.7 MMT in MY 2008/09. Imports of corn in MY 2007/08 declined significantly to 150 TMT, which mostly came from Thailand and India. However, weak purchasing power depressed consumer consumption of broiler meat, leading to a slight increase in feed production in MY2008/09, which is estimated to reach 8.4 MMT.

Rice

Favorable weather for last two consecutive years since 2007 led to an increase in rice production to 37 MMT milled rice equivalent and a sharp decline in rice imports to 350 TMT milled rice equivalent in CY2008. Rice production increases are due to improved yields, not opening new land for rice production. Bulog remains the only agency given the authority to import rice.

Commodities:

Wheat

Consumption:

In MY 2008/09, Indonesian per capita wheat flour consumption in MY 2008/09 is estimated to remain on par with the previous MY 2007/08 at 18 kg per capita per annum.

The noodle industry contributes to 50 percent of overall Indonesian wheat flour consumption followed by the bakery industry (25 percent), biscuits (15 percent), fried meals (5 percent), and household use (5 percent).

Normally, lower and middle-sized bakeries that cater to lower and middle income Indonesians account for about 90 percent of wheat flour use. Depressed consumer purchasing power made it difficult for bakers to increase products prices when the price of wheat flour increased. Instead of increasing consumer prices, they reduced the size of their bread or donut and sold it at the same price, and used lower quality wheat flour. Bakeries that cater upper income consumer increased their prices by an average of 5-7 percent.

GOI efforts to maintain rice prices during the campaigning season at an affordable level for consumers and through the government purchasing price (HPP) policy has reduced the consumption of wheat flour based instant noodles in MY2007/08. Some wheat millers adjusted their prices to reflect the high prices of wheat in the international market, which led some lower-middle size wheat flour-based food manufacturers to close operations. As a result, in MY 2007/08 growth of Indonesian total wheat consumption reached 5.2 MMT, a small increase compared to 5 MMT in MY 2006/07. In line with population growth, Indonesian wheat consumption is expected to slightly increase to 5.3 MMT in MY 2008/09.

Instant noodles are substituted for rice in the Indonesian diet. When the price of rice increases dramatically, instant noodles consumption increases.

Trade:

The soaring price of wheat in world markets during MY 2007/08 reduced Indonesian wheat imports by 7.5 percent to 4.9 MMT. Imports are estimated to rebound to 5.2 MMT in MY2008/09, mostly driven by several new wheat millers entering the market. Four new flour mills with a total installed capacity of 500 TMT per year have been operational since 2008. Another new flour mill with a total installed capacity of 600 TMT is expected to start its operation by mid 2009.

Drought in Australia reduced its share in the Indonesian wheat market to equal the share of Canadian wheat in MY 2007/08. New decision makers at the larger Indonesian flour miller decreased competition in the domestic flour and have helped to increase market share for U.S. wheat varieties. Their preference and the situation in Australia resulted in an increase of U.S. wheat exports to Indonesia by 19 percent to 991 TMT and increased market share to 20 percent.

Indonesia does not only import milling wheat but also imports wheat flour. In CY 2008 imports of wheat flour declined by 20 percent to 390 TMT as some of the wheat flour importers began milling wheat. Turkey held the largest market share of wheat flour imported into Indonesia with approximately 33 percent share, followed by Australia (28 percent), Sri Lanka (14 percent), and China (12 percent). Currently, Indonesian wheat millers are submitting an antidumping petition to the Indonesian Anti Dumping Commission over concerns that Turkey, Australia, and Sri Lanka dumped their wheat flour to Indonesia.

Stocks:

Ending stocks of wheat in MY 2008/09 are estimated to decline to 420 TMT compared to 750 TMT in the previous marketing year as more wheat is used in wheat based-food product consumption.

Policy:

Due to the soaring price of wheat in the international market during MY2007/08, in February 2008 GOI temporarily removed the 10 percent Value Added Tax (VAT) for wheat and wheat flour and the import duty for wheat flour to maintain an affordable wheat flour price for consumers. The 10 percent VAT on wheat and wheat flour was reinstated in January 2009 and the 5 percent import duty on wheat flour was re-imposed on January 28, 2009 by the Ministry of Finance decision. Removal of the duties prompted 8 potential new wheat millers to delay milling and to import instead enter the market because the 10 percent VAT imposed on domestically produced wheat flour would add to production cost. The import duty for wheat is zero.

In addition, on January 24, 2008 the Ministry of Industry issued a regulation temporarily lifting the Indonesian National Standard fortification requirements on wheat flour.

Formerly, wheat flour produced domestically or imported must have been fortified with iron, zinc, thiamin, riboflavin, and folic acid to assure nutritional value. The compulsory policy of SNI for wheat flour was re-enforced in July 2008 when GOI considered that the price of wheat in international market was stable.

Production, Supply and Demand Data Statistics:

Wheat Indonesia	2007			2008			2009	
	2007/2008			2008/2009			2009/2010	
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan
			Data			Data		Data
Area Harvested	0	0	0	0	0	0		0
Beginning Stocks	1,319	1,047	1,319	972	1,002	749		419
Production	0	0	0	0	0	0		0
MY Imports	5,224	5,300	4,900	5,600	5,500	5,200		5,500
TY Imports	5,224	5,300	4,900	5,600	5,500	5,200		5,500
TY Imp. from U.S.	994	950	991	0	1,000	750		750
Total Supply	6,543	6,347	6,219	6,572	6,502	5,949		5,919
MY Exports	221	185	220	200	195	130		100
TY Exports	221	185	220	200	195	130		100
Feed Consumption	50	60	50	50	60	50		50
FSI Consumption	5,300	5,100	5,200	5,300	5,300	5,350		5,400

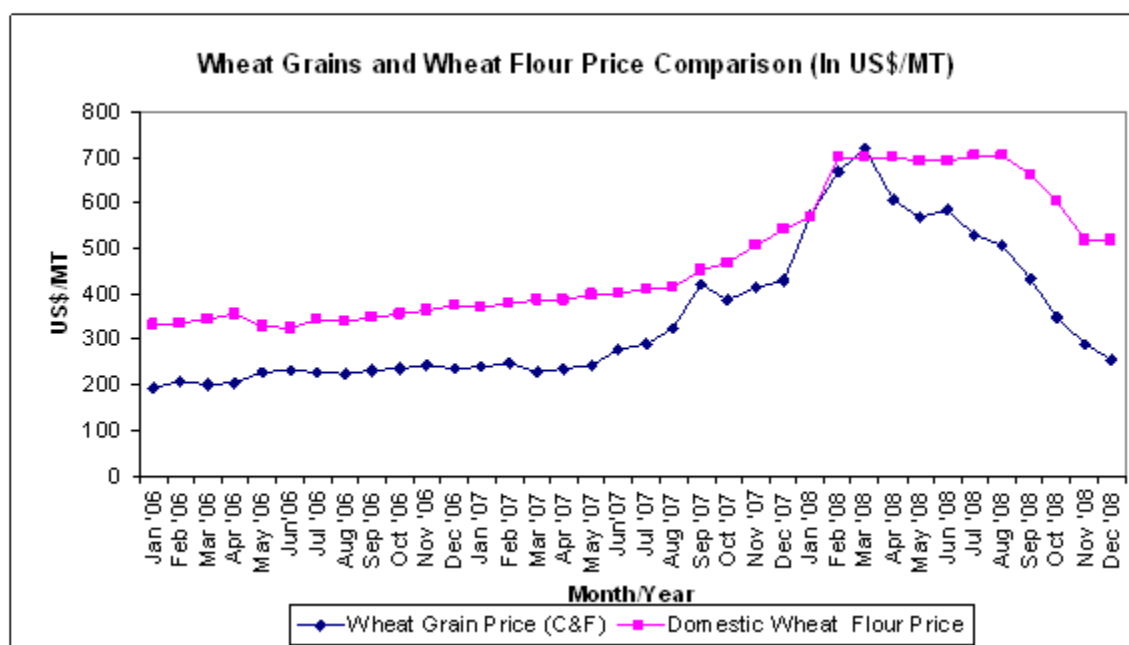
Total Consumption	5,350	5,160	5,250	5,350	5,360	5,400			5,450
Ending Stocks	972	1,002	749	1,022	947	419			369
Total Distribution	6,543	6,347	6,219	6,572	6,502	5,949			5,919
Yield	0.	0.	0.	0.	0.	0.			0.
TS=TD			0			0			0

Note: Not official USDA data.

Author Defined:

Prices

The comparison of international wheat grains and domestic wheat flour prices can be seen in the following chart:



Source: APTINDO (Indonesian Wheat Millers Association)

Note:

- Wheat grain price based on KCBOT historical data, HRW 12.0, US. Gulf Port.
- Wheat flour price based on Segitiga Biru domestic price (APTINDO historical data)

The temporary removal of the 10 percent VAT and import duty on wheat flour put in place from February 2008 to January 2009, prompted an increase in imports at the beginning of the year so that domestic prices of flour did not drop when the international price of wheat did.

Commodities:

Corn

Production:

The high price of corn in world markets contributed to increases in the domestic price of corn and an incentive for farmers to grow corn. Favorable weather and GOI subsidies improved yields so that production increased in MY 2007/08. The decline in corn prices motivated some farmers to return to growing rice, which price is guaranteed by the government. However, more corn farmers are using hybrid seed resulting in increased yields. In CY 2008, GOI provided subsidized hybrid corn seed for a total of 350,000 ha of planted area, and in CY 2009 the total area grown with subsidized hybrid corn seed is raised to 400,000 ha. Thus, Indonesian corn production is forecast to increase by 2.4 percent to 8.7 MMT in MY 2008/09 compared to 8.5 MMT in MY 2007/08.

In 2009, total area planted with hybrid corn is estimated to increase to 1.2 million hectares compared to 1.1 million hectares in 2008, with an average yield of 4.75 tons/hectare. Total demand for hybrid corn seed in CY 2008 was 22 TMT and is estimated to increase to 24 TMT in CY 2009. The price of hybrid corn seed currently ranges from Rp. 28,500/kg (US\$ 2,395/ton) – Rp. 47,500/kg (US\$3,992 /ton). Most corn farmers in Indonesia still use composite and local corn seed with an average yield of 2.75 tons/hectare. Use of hybrid corn seed continues to increase and now accounts for 35 percent of total corn area.

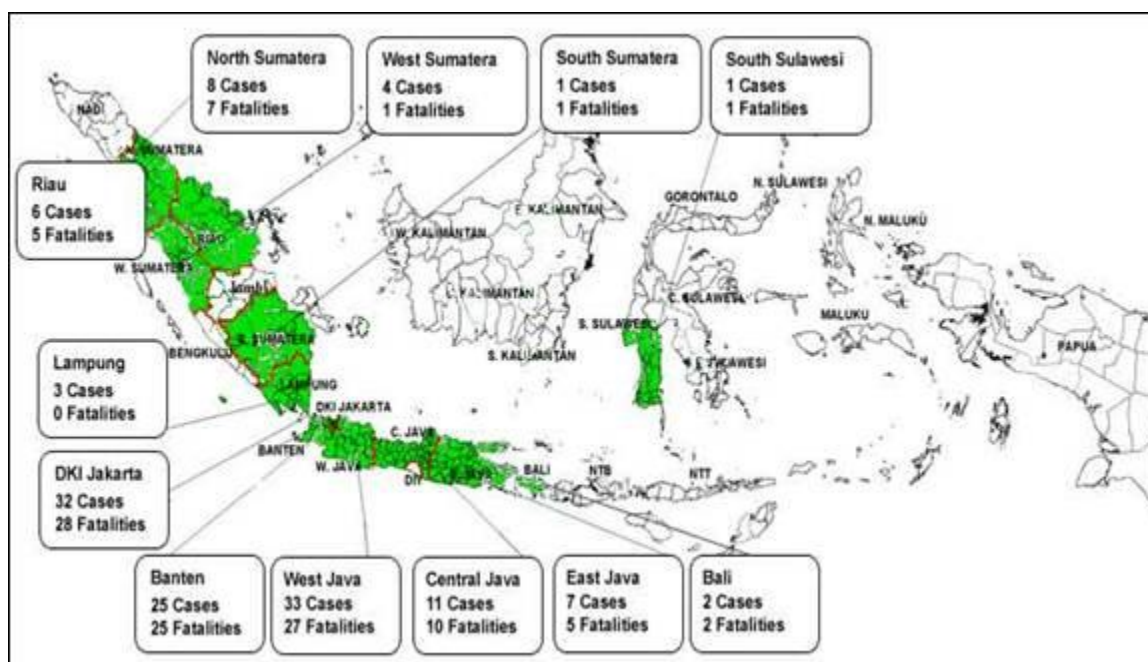
Corn is largely planted as a secondary crop or planted alongside the rice field. An increase in the price of corn influences the decision of farmers who will be choosing between rice and corn during the second crop cycle that normally starts in April. Farmers tend to base their decision on price rather than the weather when deciding which crops they will grow. MY 2009/10 Indonesian corn production is forecast to increase to 9 MMT.

Consumption:

According to feed millers, corn accounts for 50 percent of feed formulations. It is combined with soybean meal, poultry meat meal, meat and bone meal, fish meal, and other feed ingredients. Over the past three years this has been growing utilization of DDG from the United States. Approximately 70 percent of feed production goes to poultry and around 8 percent goes to swine. The remainder goes to aquaculture and dairy. Depressed purchasing power reduced poultry meat consumption resulting in a marginal increase in feed production. MY 2008/09 Indonesian corn consumption for feed is estimated to slightly increase to 4.2 MMT compared to the previous MY 2007/08 of 4.1 MMT.

Several new brands of corn-based snack foods were launched into the market. One is a cup steamed sweet corn topped with sweetened condensed milk, cheese, butter, or chili sauce as a snack at malls and shopping centers in Indonesian major cities. These have increased corn for FSI consumption to 4.4 MMT in MY 2008/09 compared to 4.2 MMT in MY 2007/08.

**Confirmed Human H5N1 Influenza Cases in Indonesia
By Province as of September 8, 2008**



Source: Indonesian National Commission on Avian Influenza.

The number of deaths attributed to influenza contracted from poultry continuous to grow, particularly in the major production areas in Java. AI coverage in the media no longer significantly impacts consumer poultry meat consumption as efforts to educate consumers on how to handle poultry meat properly to avoid AI infection to human reduce consumers concerns.

Trade:

In line with the increase in production, MY 2008/09 Indonesian corn imports are estimated to decline to only 100 TMT compared to 150 TMT in MY 2007/08. In MY 2007/08, Thailand was the largest supplier of corn to Indonesia with a 43-percent market share, followed by India (26 percent), Myanmar (16 percent), and the United States (7 percent). Total corn imports in MY 2009/10 are forecast to be stable at 100 TMT.

Policy:

On March 2009, the Indonesian Directorate General for Livestock issued a letter approving the importation of meat and bone meal (MBM) from two additional U.S. rendering plants increasing the total to five plants. The letter also mentioned that U.S. MBM was safe and that the importation of MBM from the United States is accepted provided that the health requirement for animal products imported from the United States into Indonesia complies with all terms and conditions which the approved plants are implementing. Reportedly, Indonesian feed millers consumed approximately 400 TMT of MBM and poultry meat meal (PMM) in CY 2008. The amount is projected to increase to 640 TMT of MBM and PMM in CY 2012 according to feed millers.

Production, Supply and Demand Data Statistics:

Corn Indonesia	2007		2008		2009	
	2007/2008		2008/2009		2009/2010	
	Market Year Begin: Oct 2007		Market Year Begin: Oct 2008		Market Year Begin: Oct 2009	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan

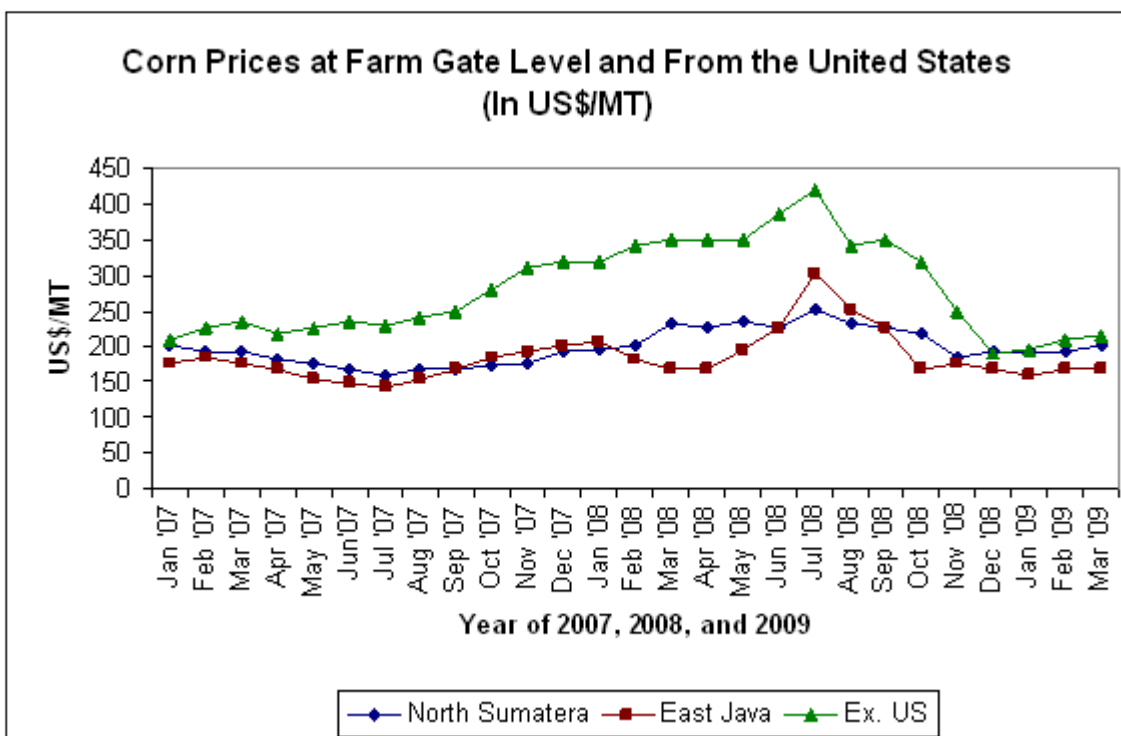
			Data			Data			Data
Area Harvested	3,560	3,560	3,210	3,700	3,700	3,220			3,250
Beginning Stocks	629	750	629	579	715	1,008			1,136
Production	7,500	7,500	8,500	7,750	7,750	8,700			9,000
MY Imports	200	600	270	500	500	100			100
TY Imports	200	600	270	500	500	100			100
TY Imp. from U.S.	44	200	44	0	150	8			10
Total Supply	8,329	8,850	9,399	8,829	8,965	9,808			10,236
MY Exports	50	35	91	25	35	72			100
TY Exports	50	35	85	25	35	72			100
Feed Consumption	3,800	4,200	4,100	4,200	4,200	4,200			4,200
FSI Consumption	3,900	3,900	4,200	4,000	4,000	4,400			4,500
Total Consumption	7,700	8,100	8,300	8,200	8,200	8,600			8,700
Ending Stocks	579	715	1,008	604	730	1,136			1,436
Total Distribution	8,329	8,850	9,399	8,829	8,965	9,808			10,236
Yield	2.	2.	2.648	2.	2.	2.7019			2.7692
TS=TD			0			0			0

Note: Not official USDA data.

Author Defined:

Prices

The movement of corn prices at farm gate level can be seen in the following chart.



Source: PT. Swaco Prima Windutama.

As the gap between the prices of U.S. imported corn and domestically produced corn grew, feed millers prefer to source their corn from the domestic market. As long as the domestic corn production continuous at current levels, imports will remain low.

Corn Production: Area & Production by Region

First Estimate Figures by the Government of Indonesia for 2009*

Province	Harvested Area (Ha)	Production (MT)		Yield (100Kg/Ha)
		(Wet Basis)	(Dry Basis)	
North Sumatera	247,056	1,135,149	794,604	45.95
Lampung	387,969	1,846,606	1,292,624	47.60
Sub Total: Sumatera	844,375	3,823,174	2,676,222	36.26
West Java	118,354	641,880	449,316	54.23
Central Java	645,243	2,728,495	1,909,947	42.29
East Java	1,214,565	4,978,160	3,484,712	40.99
Sub Total: Java	2,056,052	8,637,429	6,046,200	37.73
East Nusa Tenggara	250,429	637,044	445,931	25.44
Sub Total: Bali & Nusa Tenggara	342,249	921,784	645,249	28.72
West Kalimantan	34,844	131,989	92,392	37.88
South Kalimantan	20,374	94,768	66,338	46.51
Sub Total: Kalimantan	63,259	246,985	172,890	34.22
North Sulawesi	142,964	509,261	356,483	35.62

South Sulawesi	297,954	1,239,922	867,945	41.61
Gorontalo	161,612	794,613	556,229	49.17
Sub Total: Sulawesi	682,733	2,808,288	1,965,802	37.77
Other Provinces/Islands	20,511	40,579	28,405	18.54
TOTAL INDONESIA	4,009,179	16,478,239	11,534,767	41.10

Source: Central Bureau of Statistics (BPS)

Note *: GOI first estimate figures.

Commodities:

Rice, Milled

Production:

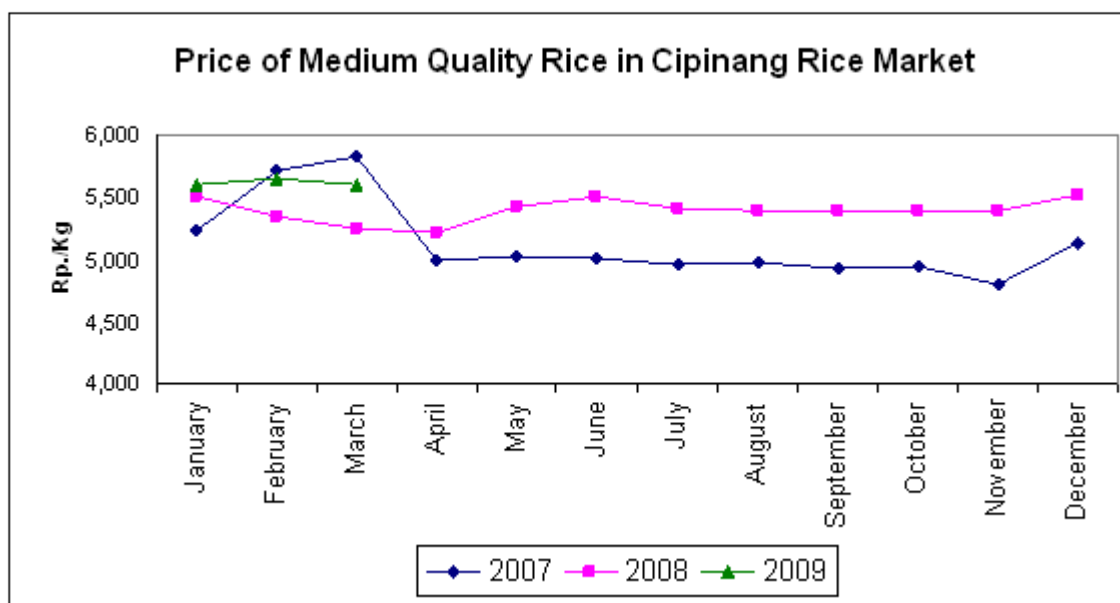
The weather in the last two years has been favorable to Indonesia's rice production. In addition, efforts to increase rice production by increasing the yield per ha including:

1. An integrated cropping management approach that encourages farmers to use certified seed, apply balance fertilizing in their field, and intermittent irrigation. This approach has been implemented since 2006. Most of the farmers have been using high yielding varieties seed, but they use the same seed for 5-7 planting seasons which lowers the yield during harvest. Farmers usually over fertilize their field more than the recommended amount and at the improper time. Using the "Color Leaf Chart", farmers are encouraged to match the color of leaves with the color on the chart to determine the best time for fertilizing the plant.
2. The government program to increase rice production by 2 MMT since 2007 by providing free seed to farmers. In 2008, GOI distributed 55 TMT non-hybrid paddy seed and 4.5 TMT hybrid paddy seed to farmers. In 2009, GOI is allocating to farmers 50 TMT of non-hybrid paddy seed and 6.3 TMT of hybrid paddy seed.
3. Reinforcing the function of the extension officers' in the field. Before 1999 decentralization, the extension officers were the focal point for introducing the use of new technology to farmers. But since then, the extension officer program has been neglected. Now, GOI is re-configuring the program so that agricultural extension officers can educate farmers and demonstrate good farming practices. A total of 3,300 extension officers were trained by a total of 100 trainers throughout Indonesia.

By implementing these programs, Indonesia was able to produce 37 MMT milled rice equivalent in CY 2008, a 5 percent increase compared to 35.3 MMT milled rice equivalent produced in CY 2007. However, during CY 2009, the weather to date has not been as good as last year. CY 2009 Indonesian rice production is estimated to reach 37.3 MMT, an increase of less than one percent from CY 2008.

With the increase in rice production during CY 2008 Bulog procured a record 3.2 MMT domestically while rice prices remained relatively stable rice during the off-season period at the Cipinang wholesale rice market in Jakarta. Bulog plans to procure 3.8 MMT milled rice equivalent from the domestic market this year.

The price movement of medium quality rice at the Cipinang wholesale rice market can be seen in the following chart:



Source: Cipinang wholesale rice market.

Note: March 2009 data is average until March 19, 2009-03-25

Concern over construction development is prompting GOI to consider issuing Land Protection Law which would impose a penalty if agricultural land is converted to non-agricultural use unless an area three times the converted area is provided.

Consumption:

In line with the population growth, CY 2009 Indonesian rice consumption is estimated to rise to 37.1 MMT and is forecast to further grow to 37.4 MMT in CY 2010. According to Indonesian Central Statistics Agency (BPS), Indonesian per capita consumption of rice is 139 kg per capita per year.

Trade:

In line with the increase in rice production in CY 2008, imports of rice were significantly decreased to only 350 TMT of specialty rice as approved by the Ministry of Agriculture. Imports of rice brought in by Bulog in CY 2008 were left over from imports licenses issued in CY 2007. Imports of rice in CY2009 are estimated to be stagnant at 350 TMT.

Statements by politicians suggest that Indonesia will export approximately 100 TMT of premium quality rice in CY 2009, and that private industry will be allowed to export in addition to Bulog. Most observers however believe exports are unlikely to occur at the targeted level due to non-competitive prices. Currently the price of Indonesian premium rice is higher than that of the same quality rice in the international market. In addition exports is limited to during the main harvest season of April to June 2009 in order to prevent price hikes during the off-season period. Shipments can only be through Makasar, Surabaya, and Jakarta ports, which may create other constraints. Given the situations, in MY 2008/09, Indonesian rice exports are estimated to reach 10 TMT as the government pushing exports is largely seen by the local industry as a political issue during an election year campaign cycle.

Stocks:With the increase of supply from domestic production, CY 2008 ending stocks are estimated to increase to 5.6 MMT. The CY 2009 ending stocks are forecast to further increase to 6.3 MMT, an ending stock equivalent to 62 days consumption.

Policy:

In CY 2009, Bulog will distribute a total of 3.3 MMT of rice to 18.5 million families under the rice for the poor program called the Raskin program. Each family will receive 15 kg of rice for the price of Rp. 1,600/kg (US\$ 175/ton) for 12 months. In 2008, Bulog distributed a total of 2.8 million tons of rice to 19.1 million families under Raskin program, half in Java and remainder in outer island including endemically food deficient in eastern Indonesia.

Production, Supply and Demand Data Statistics:

Rice, Milled Indonesia	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	11,900	11,900	11,900	11,900	11,900	11,850			11,850
Beginning Stocks	4,607	4,657	4,607	4,357	4,757	5,607			6,307
Milled Production	35,800	35,800	37,000	36,250	36,249	37,300			37,600
Rough Production	55,504	55,504	57,364	56,202	56,200	57,829			58,295

Milling Rate (.9999)	6,450	6,450	6,450	6,450	6,450	6,450			6,450
MY Imports	500	500	350	800	800	350			300
TY Imports	500	500	350	800	800	350			300
TY Imp. from U.S.	0	0	350	0	0	0			0
Total Supply	40,907	40,957	41,957	41,407	41,806	43,257			44,207
MY Exports	0	0	0	0	0	10			0
TY Exports	0	0	0	0	0	10			0
Total Consumption	36,550	36,200	36,350	36,851	36,850	36,940			37,400
Ending Stocks	4,357	4,757	5,607	4,556	4,956	6,307			6,807
Total Distribution	40,907	40,957	41,957	41,407	41,806	43,257			44,207
Yield (Rough)	5.	5.	4.8205	5.	5.	4.8801			4.9194
TS=TD			0			0			0

Note: Not official USDA data.

Author Defined:

Prices

On December 24, 2008, GOI issued a presidential decree which raises the government purchasing price (Harga Pembelian Pemerintah = HPP) for wet paddy, dry paddy, and rice. Bulog is mandated to buy paddy and rice when the prices of paddy and rice are lower or at the level of HPP. The new presidential decree is effective as of January 1, 2009.

Government Purchasing Price (HPP)

(Based on the Presidential Instruction No. 8/2008)

Type	Moisture Content (Percent)	Government Purchasing Price (HPP)			
		Old (2008)		New (2009)	
		Rp./kg	US\$/ton	Rp./kg	US\$/ton
Wet paddy (GKP) at farmer level	25	2,200	185	2,400	202
Wet paddy (GKP) at milling level	25	2,240	188	2,440	205
Dry paddy (GKG) at milling level	14	2,800	235	3,000	252
Dry paddy (GKG) in Bulog storage	14	2,840	239	3,040	255
Rice in Bulog storage	14	4,300	361	4,600	387

Currently, the price of wet paddy at the farmer level in Java ranges from Rp. 2,100/kg (US\$ 176/ton) to Rp. 2,400/kg (US\$ 202/ton). The price of dry paddy at the farmer level ranges from Rp. 2,800/kg (US\$ 235/ton) to Rp. 2,850/kg (US\$ 239/ton). The price of medium quality rice at the wholesale market is Rp. 5,600/kg (US\$ 471/ton).

Agricultural Inputs

In CY 2008, the government fertilizer subsidy was valued at Rp. 13 trillion. In CY 2009, the government will subsidize 5.5 TMT of inorganic and organic fertilizers with the estimated value of the subsidy being Rp. 17.5 trillion. The maximum retail price of the fertilizer the Indonesian government allows has not changed since January 2007. The maximum retail price for fertilizer ranges from Rp. 1,200/kg (US\$ 101/ton) to Rp. 1,750/kg (US\$ 147/ton).

Rice Production: Area & Production by Region

First Estimate Figures by the Government of Indonesia for 2009*

Province	Harvested Area (Ha)	Production (MT)	Yield (100Kg/Ha)
North Sumatera	764,576	3,426,381	44.81
South Sumatera	729,583	3,058,113	41.92
Sub Total: Sumatera	3,179,988	13,880,593	39.48
West Java	1,822,941	10,231,796	56.13
Central Java	1,671,640	9,224,648	55.18
East Java	1,776,341	10,417,164	58.64
Sub Total: Java	5,780,081	32,488,878	54.44
West Nusa Tenggara	379,608	1,792,697	47.22
Sub Total: Bali & Nusa Tenggara	712,203	3,215,353	45.65
West Kalimantan	397,924	1,251,574	31.45
South Kalimantan	514,667	2,000,239	38.86
Sub Total: Kalimantan	1,284,571	4,430,299	33.75
Central Sulawesi	209,406	975,130	46.57
South Sulawesi	846,153	4,119,932	48.69
Sub Total: Sulawesi	1,397,059	6,669,544	47.25
Other Provinces/Islands	68,254	247,245	36.08
TOTAL INDONESIA	12,422,156	60,931,912	49.05

Source: Central Statistics Agency (BPS).

Note* : GOI first estimate figures.

Note:

Exchange rate is Rp. 11.900/USD 1 as of March, 2009.